

Strategic Compensation: A Human Resource Management Approach, 10e (Martocchio)
Chapter 1 Strategic Compensation: A Component of Human Resource Systems

1) _____ refers to the design and implementation of compensation systems to reinforce the objectives of both HR strategies and competitive business strategies.

- A) Extrinsic compensation
- B) Strategic compensation
- C) Strategic analysis
- D) Intrinsic compensation

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.1: Define strategic compensation.

2) Protection programs are what type of compensation benefits?

- A) external
- B) non-monetary rewards
- C) internal
- D) monetary

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.1: Define strategic compensation.

3) Which of the following is an example of a core compensation?

- A) medical insurance
- B) vacations
- C) day care assistance
- D) monetary compensation

Answer: D

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.1: Define strategic compensation.

4) Since the economic recession (2007-2009) ended, fewer companies have offered pay increases, and those that do are offering lower amounts. Approximately, how much have pay increases been?

- A) less than 2 percent
- B) 2 percent up to 2.9 percent
- C) 3 percent up to 3.8 percent
- D) 4 percent or more

Answer: C

Difficulty: Challenging

Skill: Concept

AACSB: Reflective Thinking

LO: 1.1: Define strategic compensation.

5) This concept describes a company's success when the company acquires or develops capabilities that facilitate outperforming the competition.

- A) differentiation
- B) capital
- C) compensation practices
- D) competitive advantage

Answer: D

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.1: Define strategic compensation.

6) Which of the following refers to the planned use of company resources-financial capital, equipment capital, and human capital-to promote and sustain competitive advantage?

- A) strategic analysis
- B) comparative analysis
- C) 360 degree analysis
- D) competitive business strategy

Answer: D

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.1: Define strategic compensation.

7) _____ compensation refers to the mental state of employees as a result of their performance on the job.

Answer: Intrinsic

Difficulty: Moderate

Skill: Concept

AACSB: Reflective Thinking

LO: 1.1: Define strategic compensation.

8) Compensation represents both the intrinsic and extrinsic rewards employees receive for performing their jobs. Together, both intrinsic and extrinsic compensation describe a company's total compensation system. Briefly describe both types of rewards and indicate the professionals who are responsible for managing them.

Answer: Intrinsic compensation reflects employees' psychological mind-sets that result from performing their jobs. Extrinsic compensation includes both monetary and nonmonetary rewards. Organizational development professionals promote intrinsic compensation through effective job design. Compensation professionals are responsible for extrinsic compensation. Extrinsic compensation includes both monetary and nonmonetary rewards. Compensation professionals establish monetary compensation programs to reward employees according to their job performance levels or for learning job-related knowledge or skills. Nonmonetary rewards include protection programs (e.g., medical insurance), paid time off (e.g., vacations), and services (e.g., day care assistance). Most compensation professionals refer to nonmonetary rewards as employee benefits.

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.1: Define strategic compensation.

9) Which of following enables companies to generate income, higher company stock prices, economic value, strong positive brand identity, and reputation?

- A) capital
- B) assets
- C) competency
- D) human capital

Answer: A

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.2: Summarize the role of compensation as a strategic business partner.

10) As a strategic business partner, HR and compensation professionals today need to think most like whom?

- A) vice president of human resources
- B) chief financial officer (CFO)
- C) chief executive officer (CEO)
- D) comptroller

Answer: C

Difficulty: Moderate

Skill: Concept

AACSB: Application of Knowledge

LO: 1.2: Summarize the role of compensation as a strategic business partner.

11) In GE's human resource leadership program (HRLP), successful participants will achieve which of the following?

- A) gain an understanding of the depth of specialization for each (HR) function
- B) gain an understanding of HR competencies, global leadership skills, and business acumen
- C) gain an understanding of the depth of specialization for each HR function
- D) gain an understanding of HR from a generalist's perspective

Answer: B

Difficulty: Easy

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.2: Summarize the role of compensation as a strategic business partner.

12) Cash and equipment such as a mass spectrometer in a research lab are examples of which of the following?

- A) nonliquid assets
- B) organizational structure
- C) capital
- D) liquid assets

Answer: C

Difficulty: Moderate

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.2: Summarize the role of compensation as a strategic business partner.

13) _____ and _____ programs are key to giving employees the necessary knowledge and skills to use new workplace technology effectively.

Answer: Pay-for-knowledge; skill-based pay

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.2: Summarize the role of compensation as a strategic business partner.

14) Discerning threats and opportunities is the main focus of which activity?

- A) human resource planning
- B) environmental scanning
- C) job evaluation
- D) job analysis

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Application of Knowledge

LO: 1.3: Explain strategic compensation decisions.

15) This term suggests that a loss is likely for the firm, and that the individual will be left with little control.

- A) reverse opportunity
- B) negative equity
- C) threat
- D) foreclosure

Answer: C

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

16) Which of the following competitive strategies does Apple Computer use?

- A) lowest-cost strategy
- B) differentiation strategy
- C) total quality management strategy
- D) human capital strategy

Answer: B

Difficulty: Moderate

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.3: Explain strategic compensation decisions.

17) IKEA, a furniture manufacturer, sources its products to countries where labor is cheaper and provides a low level of service. Which of the following competitive strategies does IKEA use?

- A) differentiation strategy
- B) high quality strategy
- C) brand notoriety
- D) lowest-cost strategy

Answer: D

Difficulty: Moderate

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.3: Explain strategic compensation decisions.

18) A company using this competitive strategy seeks to offer a product or service that is completely unique from other competitors in their market segment.

- A) differentiation strategy
- B) defender strategy
- C) prospector strategy
- D) lowest-cost strategy

Answer: A

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

19) Which of these actions would HR encourage in attempting to create a lowest-cost competitive strategy?

- A) an employee's long-term focus
- B) unpredictable employee behavior
- C) cost minimization
- D) high concern for the quality of output

Answer: C

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

20) Saudi Arabia, which is one of the top oil producing countries in the world, continues to pump crude oil even as demand for oil decreases. This activity is considered to be a(n) _____ to other oil producing countries such as the United States.

Answer: threat

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

21) Strategic management involves distinguishing between _____ and _____ in attempting to achieve company goals, thus making strategic management an imprecise process.

Answer: threats, opportunities

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

22) Apple Computer's use of a differentiation strategy promotes both _____ and _____.

Answer: market demand, loyalty

Difficulty: Challenging

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.3: Explain strategic compensation decisions.

23) What are the three questions that compensation professionals should answer to help determine whether they are making a strategic contribution to the company?

Answer:

- Does compensation strategy fit well with the objectives of competitive business and HR strategies?
- Does the choice and design of compensation practices fit well to support compensation strategy?
- Does the implementation of compensation practices effectively direct employee behavior to enhance job performance that supports the choice of compensation practices?

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.3: Explain strategic compensation decisions.

24) This law made it illegal to pay women less for performing equal work as men.

- A) Equal Pay Act of 1963
- B) Civil Rights Act of 1964
- C) Davis - Bacon Act of 1931
- D) Fair Labor Standards Act of 1938

Answer: A

Difficulty: Moderate

Skill: Concept

AACSB: Reflective Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

25) Cost-of-living adjustments (COLAs) are typically based on which index?

- A) Producer Price Index
- B) Consumer Price Index
- C) Employment Cost Index
- D) Employee Benefit Index

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Reflective Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

26) What type of pay system rewards employees for partially or completely attaining a predetermined work objective?

- A) seniority pay
- B) merit pay
- C) incentive pay
- D) skill-based pay

Answer: C

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

27) Jason works at a call center for an insurance company, and he has been answering calls regarding auto insurance. Recently, he started to attend a training program about home insurance. Upon successful completion of this training program, Jason will be able to handle home insurance questions and queries as well. If this insurance company has a compensation policy that rewards Jason's completion of this training, then what type of pay system does it employ?

- A) incentive pay
- B) merit pay
- C) seniority pay
- D) pay-for-knowledge

Answer: D

Difficulty: Moderate

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

28) Sandra's position changed from supervisor at the planning department to supervisor at the new projects department. In terms of career development, which of the following describes Sandra's situation?

- A) maintaining focus with less responsibilities
- B) making a lateral move across the company's hierarchy
- C) moving upward through a company's hierarchy
- D) maintaining the focus and assuming greater responsibilities

Answer: B

Difficulty: Moderate

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

29) What do compensation managers use to recognize differences in the relative worth of jobs and to establish pay differentials based upon management priorities?

- A) job evaluation
- B) internal consistency
- C) job analysis
- D) strategic analysis

Answer: A

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

30) These compensation systems go a long way in attracting and retaining the most qualified employees and are based upon market and compensation surveys.

- A) internally consistent compensation systems
- B) market-competitive pay systems
- C) job evaluation compensation systems
- D) externally consistent compensation systems

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

31) Which of the following represents the pay rate differences for jobs and employee contributions of unequal worth to a company?

- A) merit pay
- B) incentive pay
- C) retention pay
- D) pay structures

Answer: D

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

32) What are the three goals of compensation professionals?

Answer: Compensation professionals promote effective compensation systems by meeting three important goals: internal consistency, market competitiveness, and recognition of individual contributions.

Internally consistent compensation systems clearly define the relative value of each job among all jobs within a company. This ordered set of jobs represents the job structure or hierarchy. Companies rely on a simple, yet fundamental, principle for building internally consistent compensation systems: Employees in jobs that require greater qualifications, more responsibilities, and more complex job duties should be paid more than employees whose jobs require lesser qualifications, fewer responsibilities, and less-complex job duties. Internally consistent job structures formally recognize differences in job characteristics, which therefore enable compensation managers to set pay accordingly.

Market-competitive pay systems play a significant role in attracting and retaining the most qualified employees. Compensation professionals build market-competitive compensation systems based on the results of market surveys and compensation surveys.

Recognizing Individual Contributions are captured in pay structures, which represent pay rate differences for jobs of unequal worth and the framework for recognizing differences in employee contributions. No two employees possess identical credentials or perform the same job equally well. Companies recognize these differences by paying individuals according to their credentials, knowledge, or job performance. When completed, pay structures should define the boundaries for recognizing employee contributions. Well-designed structures should promote the retention of valued employees.

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.4: Identify and discuss the building blocks and structural elements of strategic compensation systems.

33) This agreement describes the terms of employment that are set between management and union bargaining representatives.

- A) employee relationship agreement
- B) collective bargaining agreement
- C) joint employment agreement
- D) workplace requisite agreement

Answer: B

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

34) Which type of professional is involved in the compensation functions such as building job structures, market competitive pay systems, and merit pay structures?

- A) compensation generalist
- B) HR specialist
- C) compensation specialist
- D) HR generalist

Answer: A

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

35) Oftentimes, companies use this method to trim their payroll responsibilities by encouraging higher-paid workers with more seniority to voluntarily leave the company earlier than previously planned.

- A) resignation plans
- B) severance plans
- C) early retirement programs
- D) employee expenditure plans

Answer: C

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

36) The demand for human resource professionals is _____.

Answer: increasing

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

37) Companies that implement _____ and _____ plans generally increase the amount of classroom and on-the-job training as these types of plans make training necessary rather than optional.

Answer: pay-for-knowledge; person-focused

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

38) Employment _____ occurs when an employee's agreement to perform work is ended, whether it is voluntarily or involuntarily.

Answer: termination

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.5: Describe the fit of the compensation function in organizations.

39) Due to the recent economic downturn, XYZ Co. decided to shut down one of its appliance manufacturing plants in the United States, and therefore around 300 workers were laid off. XYZ Co. has chosen to award laid-off workers 6 months of _____ pay.

Answer: severance

Difficulty: Challenging

Skill: Application of Knowledge

AACSB: Application of Knowledge

LO: 1.5: Describe the fit of the compensation function in organizations.

40) This group is directly involved in producing goods and delivering services for a company.

A) staff employees

B) line employees

C) managers

D) executives

Answer: B

Difficulty: Moderate

Skill: Concept

AACSB: Analytical Thinking

LO: 1.6: Identify the stakeholders of the compensation function and summarize their stakes in the work compensation professionals perform.

41) The success of HR departments depends on how well they serve the interests of which of the following stakeholder groups?

A) employees, line managers, executives, unions, and the U.S. government

B) unions and the U.S. government

C) executives and shareholders

D) employees and line managers

Answer: A

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.6: Identify the stakeholders of the compensation function and summarize their stakes in the work compensation professionals perform.

42) Which of the following group is a stakeholder within a company?

- A) Equal Employment Opportunity Commission
- B) Department of Labor
- C) prospective employees
- D) line managers

Answer: D

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.6: Identify the stakeholders of the compensation function and summarize their stakes in the work compensation professionals perform.

43) Which stakeholder group turns to compensation professionals for advice about appropriate pay rates for jobs?

Answer: Line managers

Difficulty: Easy

Skill: Concept

AACSB: Analytical Thinking

LO: 1.6: Identify the stakeholders of the compensation function and summarize their stakes in the work compensation professionals perform.

44) What is a constituency? How does it affect the HR department?

Answer: The HR department does not exist in isolation. Rather, it must respond to a variety of parties, each with its own interests. In fact, the success of an HR department may depend on how well it serves various constituencies. Constituencies can include employees, line managers, executives, unions, the U.S. government, and customers. Each of these groups expects certain actions by the HR department, rates these actions according to its own standards, and tries to set up goals or present constraints within their realm of understanding. As a result, the HR department plays the role of a juggler, trying to meet often-competing goals presented by multiple constituencies.

Difficulty: Challenging

Skill: Concept

AACSB: Analytical Thinking

LO: 1.6: Identify the stakeholders of the compensation function and summarize their stakes in the work compensation professionals perform.

45) Which of the following is the use of oral, written, and non-verbal skills for multiple purposes?

- A) ethics
- B) data literacy
- C) information technology
- D) communication

Answer: D

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.7: Explore essential skills for developing your career in compensation or any other career path.

46) Which of the following is used to define and solve problems and to make decisions or form judgments related to a situation or set of circumstances?

- A) collaboration
- B) critical thinking
- C) information technology
- D) communication

Answer: B

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.7: Explore essential skills for developing your career in compensation or any other career path.

47) When individuals work together on a task, constructing meaning and knowledge as a group through dialogue and negotiation is known as

- A) collaboration.
- B) data literacy.
- C) social responsibility.
- D) critical thinking.

Answer: A

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.7: Explore essential skills for developing your career in compensation or any other career path.

48) _____ is/are guiding principles that influence the way individuals and organizations behave within the society that they operate

- A) Business ethics
- B) Data literacy
- C) Information technology
- D) Communication

Answer: A

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.7: Explore essential skills for developing your career in compensation or any other career path.

49) _____ is/are the ability to access, assess, interpret, manipulate, summarize, and communicate data.

- A) Business ethics
- B) Data literacy
- C) Information technology
- D) Communication

Answer: B

Difficulty: Easy

Skill: Concept

AACSB: Reflective Thinking

LO: 1.7: Explore essential skills for developing your career in compensation or any other career path.